

MEMORANDUM



TO: Mayor and Council
FROM: Tim McGowan, Municipal Budget & Finance Analyst
THROUGH: Ken Jones, Deputy City Manager – CFO
Mark Day, Municipal Budget Director
DATE: July 26, 2019
SUBJECT: 2019 Comparative Cost of Services Report

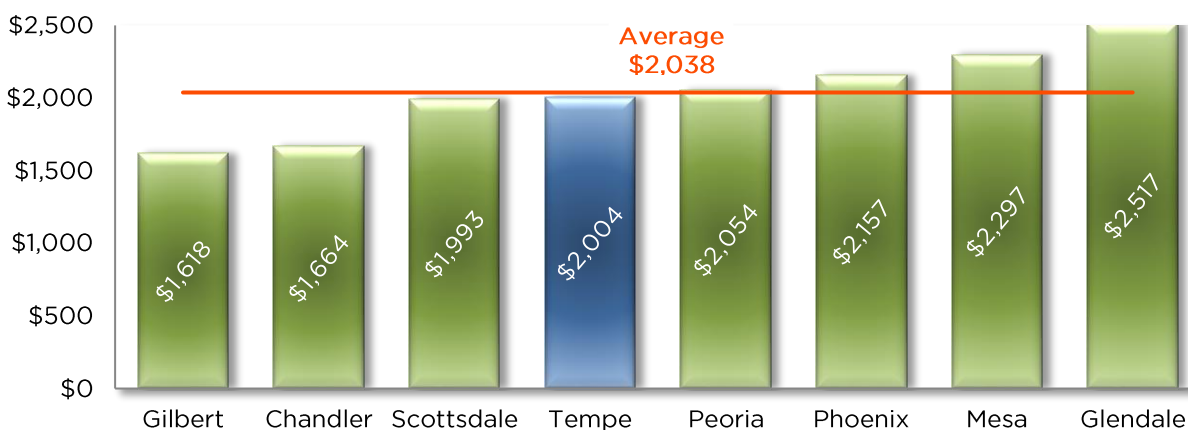
Each year the Municipal Budget Office performs an analysis of the estimated annual amounts paid by the typical residential Tempe household for direct services provided by the City of Tempe as well as the estimated total annual amount paid in City of Tempe property and transaction privilege (sales) taxes. These amounts are then compared to the estimated annual amounts paid by the same typical residential household in seven comparison cities in the Phoenix metropolitan area.

For purposes of this comparison, we utilized the property tax, sales tax and utility service rates as of July 2019. The analysis assumed the same household consumption amounts for all cities for both water and wastewater services. However, for property tax purposes, we utilized the median single family home value in each respective city in the analysis. The sales tax amounts are based on the Phoenix metropolitan area median household income. As such, this analysis is intended to reflect what the typical residential household would pay for each of the services or pay in taxes in their respective city.

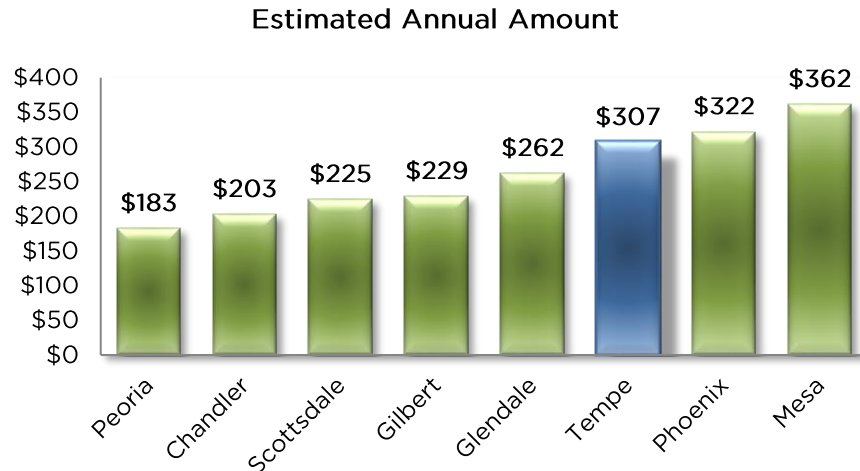
Overview

Average annual household cost for property tax, sales tax, water, wastewater and solid waste services

Estimated Annual Cost

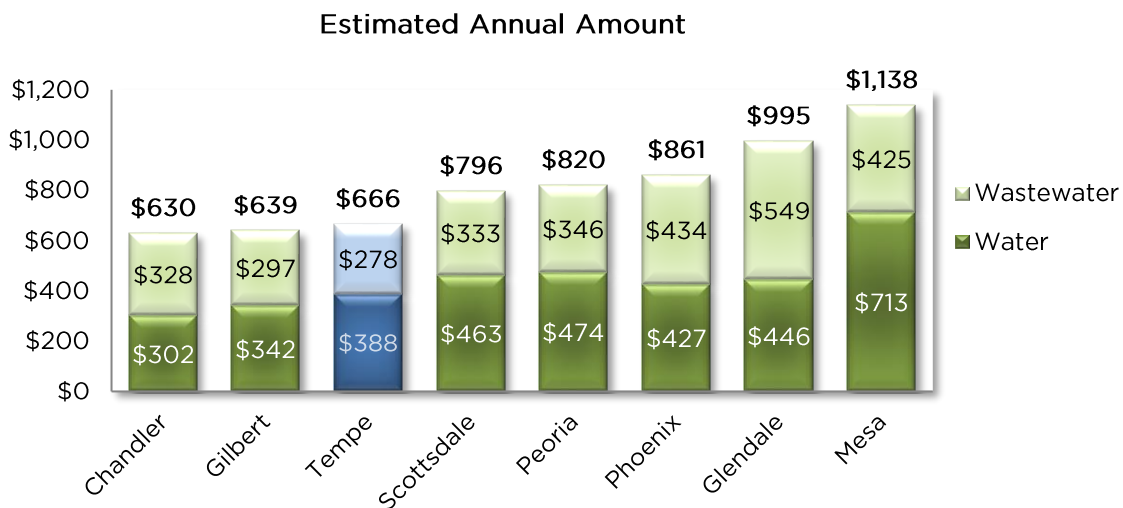


Solid Waste



The annual amount for single family residential solid waste services is estimated at \$307 for the City of Tempe. The amounts noted above are based on a residential customer with a once per week collection, based on the rates as of July 2019.

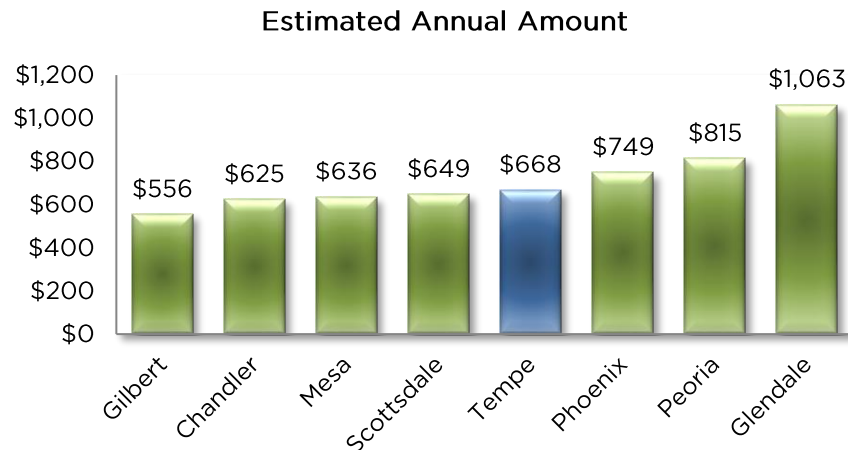
Water and Wastewater



The annual total amount for water and wastewater services for a single family residential customer in the City of Tempe is estimated at \$666. The annual water charge is based on a typical single family residential monthly water consumption of 10,000 gallons, consistent with the most recent water rate study. It is assumed that this water consumption amount is applicable to the other cities in the comparison. As such, this consumption amount was applied to each respective city's water rates as of July 2019 to derive the annual water costs.

The billable gallons of wastewater are derived from a typical residential three-month winter average water consumption of 10,000 gallons (January – March billing statements), and then multiplied by a rate of return. For example, Tempe's rate of return is 70%. When multiplied by 10,000 gallons, the result is 7,000 billable wastewater gallons per month. It is assumed that the typical water consumption is applicable to the other cities. As such, this consumption was applied to each respective city's rate of return as of July 2019 to derive the annual wastewater costs.

City Sales Tax



The annual amount that the typical Tempe residential household will pay in City of Tempe sales tax is estimated to be \$668 for 2019.

For this analysis, we utilized the Phoenix metropolitan area median household income of \$73,291 per the U.S. Census Bureau, 2017 American Community Survey. As median incomes can vary between the cities, the Phoenix metropolitan area median household income was utilized so that a direct comparison could be made between cities.

The portion of this income that was spent on taxable purchases is estimated at 51% (\$37,085), as noted in the latest Consumer Expenditure Survey published by the U.S. Bureau of Labor Statistics (April 2019). We assumed that the portion of the median income spent on taxable purchases was spent within the household's city of residence and applied to each city's applicable sales tax rate.

Please note that many of the comparison cities in the analysis utilize different tax rates for various taxable activities. For example, the City of Glendale has an overall sales tax rate of 2.9%; however, sales at restaurants and bars are taxed at 3.9%. These variances were taken into account when calculating the annual amount of sales taxes paid.

City Property Taxes



The annual estimated City of Tempe property tax amount is \$363. The property tax amounts shown above are based on each city's FY 2019-20 primary and secondary rates and each city's 2019 Limited Property Value (LPV) for the median single-family home. Starting in FY 2015-16, Proposition 117

requires the use of the LPV in levying both primary and secondary property taxes. The median single family LPV for each city, per the Maricopa County Assessor, is as follows:

Phoenix	\$105,435
Glendale	\$105,995
Mesa	\$135,206
Tempe	\$151,200
Peoria	\$163,200
Chandler	\$183,274
Gilbert	\$196,968
Scottsdale	\$310,392

It should be noted that the City of Mesa and the Town of Gilbert only levy a Secondary Property Tax.

Summary of Utility Rates

Most cities and towns in the study review rates on an annual basis to determine if there is adequate cost recovery and whether a rate increase is required. Listed below is a summary of the utility rate adjustments for the **typical residential customer** as of July 2019 and information related to any planned future rate increases:

Overview of Rate Adjustments

	Date of Last Change in Rates or Fees		
	WATER	WASTEWATER	SOLID WASTE
Chandler	October 2017	October 2017	October 2017
<i>Rate increases raised water charges by 1.1%, wastewater charges by 3.7%, and solid waste charges by 6.0% in October 2017.</i>			
Gilbert	November 2018	November 2018	November 2018
<i>Rate increases were approved for November 2018. The rate changes increased water charges by 11.3%, wastewater charges became a flat fee of \$24.73 (a 0.6% increase). The solid waste rate was reduced by 7.5%, however, a separate fee increased the total solid waste cost by 19%.</i>			
Glendale	January 2019	January 2019	January 2019
<i>Rate increases raised water charges by 5.7%, wastewater charges by 5.3%, and solid waste charges by 14.4%.</i>			
Mesa	July 2018	July 2018	July 2018
<i>Rate increases raised water charges by 1.7%, wastewater charges by 2.5%, and solid waste charges by 2.0% in July 2018.</i>			
Peoria	July 2019	July 2019	July 2019
<i>Rate increases raised water charges by 1.0%, wastewater charges by 1.8%, and solid waste charges by 6.0% in July 2019. The wastewater rate of return decreased by 21%, decreasing the typical residential wastewater bill by 12%.</i>			
Phoenix	March 2019	July 2017	July 2014
<i>Water rates increased 6.0% in March 2019, with the previous increase in March 2017. The wastewater rate of return increased by 1.0%, increasing the typical residential wastewater bill by 1.1%.</i>			
Scottsdale	November 2018	July 2019	July 2019
<i>Rate increases raised water charges by 6.9%, with planned rate increases in November 2019 increasing the typical residential rate by 4.8%. Wastewater charges increased by 1.9%, and solid waste rates by 8.7% in July 2019.</i>			
Tempe	January 2018	January 2016	January 2019
<i>Rate increases raised the solid waste charges by 2.0%. Water and wastewater rates were unchanged.</i>			